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FM AMEMBASSY ABU DHABI
TO AMCONSUL DUBAI PRIORITY
DEPT OF TREASURY WASHINGTON DC PRIORITY
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C O N F I D E N T I A L ABU DHABI 000499

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TAGS: [AE](#) [ECON](#) [IR](#) [KTFN](#) [PREL](#) [PTER](#)

SUBJECT: DUBAI REGULATOR STRUGGLES WITH BAD IRAN P.R.

Classified By: Ambassador Olson, for reasons 1.4 b and d.

11. (C) Summary. On 18 May 2009, Dubai Financial Services Authority (DFSA) CEO Paul Koster met with Ambassador Olson to complain about U.S. Treasury Department public statements highlighting Iranian financial activity in the Dubai International Financial Centre (DIFC). Koster asked that the USG handle Iran concerns privately and spare the DIFC from negative treatment in the press. Ambassador explained that the USG will continue to use targeted financial measure to address Iran's illicit activity and that Dubai would not be spared to the extent that it is exploited by Iran. He encouraged the DIFC to follow the international community and implement strict measures to protect its financial system from Iranian abuse. End Summary.

12. (C) Koster explained that the DFSA is a well regulated onshore financial free zone that puts great emphasis on money laundering, fraud, and terror finance concerns. With respect to Iran, Koster noted the active trade relationship between Iran and the UAE. Despite this relationship, the DFSA has attempted to discourage and reduce Iran-related activity in the jurisdiction when possible. Koster referred to one instance where the DFSA successfully blocked an Iranian entity from setting up the DIFC, and another where it persuaded a non-Iranian entity to turn down its business with Bank Melli Iran (NFI).

13. (C) Referring to the recent Treasury designations targeting Bank Melli subsidiaries, including two organized in the DIFC, Koster complained that such negative attention had a damaging impact on the DIFC's reputation, and therefore its business prospects as well. He requested that Treasury and the USG instead handle such matters quietly, which in his view would give the DIFC greater flexibility to take measures, considering the political circumstances.

14. (C) Koster also addressed concerns about Persia International Bank (PIB), an Iranian bank located in the DIFC that is blacklisted by the USG. He explained that the DFSA recently concluded a review of PIB's operations. While the DFSA found no illicit activity, he admitted that inspections can only go so far. He urged the USG to share with the DFSA any indications of wrongdoing that the DFSA could act upon. Koster noted that PIB has become more active in recent months, handling more financial activity, which he conceded is likely attributable to Iran being pushed out of other financial jurisdictions.

15. (C) Ambassador explained that the USG's primary concerns with respect to Iran stem from its nuclear program and terrorist support activity. He stated that while the USG is attempting to engage Iran diplomatically on a variety of issues, our targeted financial measures to address these specific threats would not abate. Ambassador warned that harboring Iranian financial activity in the DIFC posed a reputational risk to the jurisdiction, and that the USG would continue to expose areas of weakness the international financial system that are being exploited by Iran.

OLSON